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GNCMA - Q2 2004 General Communication Earnings Conference Call

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PRESENTATION

Operator

Good afternoon and welcome to today's GCI second-quarter 2004 earnings release conference call. (OPERATOR INSTRUCTIONS) At the request of the Company today's call is being recorded for replay purposes. Should anyone wish to object you may disconnect at this time. I would now like to turn the conference over to Mr. John Lowber, Senior Vice President and Chief Financial Officer. Mr. Lowber, you may begin.

John Lowber - General Communication - SVP & CFO

Thank you very much. Thank you all for taking the time to participate in our call today. I'm John Lowber, the Company's Chief Financial Officer. Ron Duncan, our President and CEO is here with me, as is Dana Tindall, our Senior Vice President in charge of Legal, Regulatory and Governmental Affairs. We also have Bruce Broquet, our VP of Finance, and Fred Walker, our Chief Accounting Officer, and a few other supporting staff here.

Later in the presentation Dana will provide an update with respect to legal and regulatory matters. We will all be available to participate in the question and answer session which will follow my initial comments.

If you don't have a copy of our detailed press release, you can find it on our website.

The conference call is being recorded. It will be available for playback for 72 hours beginning at 4 PM Eastern Time today. The playback number is 1-888-567-0444 with an access code of 7461.

In addition to the conference call you may access the conference through the Internet. To access the call via net conferencing log onto our website at www.gci.com and follow the instructions. The webcast will be available for replay for the next two weeks.

I will now read the usual cautionary statement about forward-looking comments and then we will get underway.

Some of the statements made by GCI in this presentation are forward-looking in nature. Actual results may differ from those projected and forward-looking statements due to a number of factors. Additional information concerning such factors can be found in GCI's filings with the Securities and Exchange Commission.

2004 continues to be a great year for us. The second quarter was our third strong quarter in a row. Last quarter we generated a new record for revenues; this quarter we set a new record for net income and earnings per share.

Our net income was up more than 60 percent as compared to the second quarter of last year and was up over 31 percent year-to-date in spite of more than 8 million in costs associated with refinancing our senior notes during the first quarter. Our EBITDA increase from 30.8 million to 34.9 million, or approximately 13.3 percent over last year's second quarter. For the third quarter in a row we have generated EBITDA excluding financing costs of approximately 35 million.

Before discussing our business line results, I thought I would mention a couple of items that I know are of interest to a number of books. The first item relates to progress we've made on the wireless front.

You may recall that we were contemplating building out our own wireless platform unless we were able to negotiate a suitable agreement with one of the existing wireless providers in the market. As you're probably aware by now, we reached an agreement with Dobson Communications that will allow us to add wireless service to our bundle of communication products.

Dobson has recently upgraded their wireless facilities to a state-of-the-art GSM platform which will allow us to begin to promote the latest in wireless product offerings as early as this year, much earlier than if we had built out our own infrastructure. The new agreement has a 10-year term and provides the flexibility we need to be able to compete effectively in the market. If the agreement does not work to our satisfaction we still retain the right to move forward with our own facilities.

In the meantime we will avoid spending the 85 to 100 million in capital expenditures otherwise required to build out our own platform. The agreement reduces or eliminates wireless-related financial and technology risks and includes a provision whereby we will lease a portion of our 30 MHz block of spectrum to Dobson to enhance the capacity of their existing TDMA platform. The lease agreement also will allow us to save money that would have otherwise be spent in anticipation of renewal of our PCS license.

In light of our resolution of the wireless situation, the Company's strong financial performance and the recent price performance of our common stock, our Board of Directors during a recent meeting authorized the Company to initiate a stock repurchase program. The Board authorized the purchase and retirement of up to 5 million of equity per quarter. The path has been cleared for the two remaining quarters of this year. The program is expected to continue into next year and perhaps later years depending on the Company's stock price, financial performance, the amount invested in capital expenditures, and subject to approval of the Company's senior lenders and preferred shareholders. The purchases will be made in the open market and subject to restrictions of Rule 10b-18. The purchases are expected to be made using cash generated from

operations or from borrowings under the Company's senior credit facility.

I will now discuss the results of our business units, beginning with long distance.

Long distance enjoyed a pretty decent quarter, particularly when compared to the rest of the industry. Revenues were up almost 5 percent year-over-year and EBITDA, including the effect of the MCI recovery, was up approximately 8 percent.

You may recall that we recorded approximately 6 million in revenues with approximately 10 percent in margin related to a project we completed during the first quarter of this year. Since a similar transaction did not take place during the second quarter the sequential numbers were affected. Excluding this project revenue, long distance related revenues were up 1.7 percent on a sequential basis and EBITDA was comparable to the first quarter.

We carried 293.7 million minutes during the quarter as compared to 281.2 million minutes a year ago and 301.4 million minutes during the first quarter of this year. The number of customers that made calls during June of this year increased appreciably both on a year-over-year and a sequential basis.

Billed customers totaled 90,728 as compared to 88,256 a year ago and 86,090 during March. This represents a sequential increase of 4600 customers and put us back above 90,000 for the first time in recent memory.

Our average rate per minute totaled 10.4 cents per minute during second quarter, as compared to 11.3 cents in the prior year quarter and 9.98 cents during the first quarter of this year. Our average rate per minute is down 8 percent compared to last year and is up 5 percent when compared to the first quarter. I think the quarter sequential increase is a bit of an aberration as we expected to continue to experience rate compression, particularly in the wholesale arena.

The effective rate reduction, though, is partially mitigated by continued reductions in distribution costs, primarily for access. Our long distance margins dropped 174 basis points in spite of an 8 percent decrease in rates as compared to the prior year, and were basically flat on a sequential basis excluding the effect of the special project. Because we provide local service, we also avoid long distance access charges when traffic originates or terminates on our owned or leased facilities.

Margin improvement is also driven by nominal and relative increases in terrestrial and undersea fiber, satellite, broadband, private line and data revenues. Revenues from these services continued to be robust, increasing almost 19 percent year-over-year to 25.2 million during the second quarter and almost 3 percent on a sequential basis. These revenues represented more than 41 percent of long distance revenues during the quarter.

Long distance EBITDA increase to 21 million for the quarter as compared to 19.4 million for the same quarter of the prior year, representing an increase of 8 percent. As I mentioned, LD EBITDA was flat on a sequential basis excluding the effect of the special project completed during the first quarter.

Cable television. Our cable and entertainment operations enjoyed a strong quarter. Second-quarter revenues were up 5.5 percent over the same quarter of 2003, and were up 1.3 percent on a sequential basis. Rates on an equivalent subscriber basis were up 10.25 percent to \$78.27 compared to \$70.99 a year ago and were up 2.2 percent on a sequential basis.

The increases in our revenues and rates per subscriber were due in part to the continued deployment of our high-value services, including digital and high-definition cable television and cable modems. Cable modem revenues are shared between the cable and entertainment and the Internet business units.

Subscriber counts were up this quarter for the first time in several quarters. Basic subscribers totaled 135,173 at the end of the second quarter, as compared to 133,981 at the end of the first quarter, representing an increase of almost 1200 subscribers.

We mentioned last quarter that we thought we were seeing a slowing in the rate of subscriber loss. In this quarter we are actually able to add subscribers. We were particularly successful in turning up the number of hotel customers during the quarter, and our bundled consumer offering seemed to have been fairly effective.

EBITDA from our cable operations totaled approximately 11.5 million for the second quarter versus 10.97 million for the same quarter of 2003, representing an increase of approximately 5 percent. Second-quarter EBITDA was up approximately 4.5 percent on a sequential basis. Gross profit margins increased by 147 basis points year-over-year and 319 basis points sequentially. EBITDA and margins benefited during the quarter due to our receipt of promotional payments during the quarter which served to reduce our programming costs.

We're still aggressively promoting our cable modem and digital programming offerings. Earlier this year we added the high-definition programming and a digital video recorder. The cable modem revenue run rate, including the portion shared with the Internet business, has reached approximately 24 million on an annualized basis. At quarter's end we had approximately 35,800 digital special interests subscribers compared to the 30,700 that we had a year ago. Since the first of the year we have also rolled out approximately 1900 combination HD and digital video recorder units. We're now able to offer digital programming to 91 percent of our homes passed at quarters and we're nearing completion of our conversion of the Anchorage plant to an all-digital platform.

Local services. Local services business had an eventful yet productive quarter. We turned up approximately 2000 access lines during the quarter, and at quarter's end we were serving approximately 110,600 access lines that we estimate represents a state-wide market share of approximately 24 percent. The 2000 lines we added compares to the 2500 and 2700 we added during the prior two quarters. We have added 8700 lines over the last year.

Our local services revenues increased approximately 21.3 percent over the second quarter of last year and were down slightly sequentially. I mentioned last quarter that the first quarter local services revenues were enhanced by approximately 700,000 in USF revenues resulting from a refinement of our USF revenue accruals.

A year ago we generated an EBITDA loss from local services of approximately 1 million. During the recently completed quarter local services contributed EBITDA of 150,000 without the benefit of approximately 1.5 million of access charge savings enjoyed by the long distance business.

Our access line mix is relatively unchanged with residential lines representing about 60 percent of our lines, business customers about 34 percent, and Internet access customers about 6 percent. Approximately 84 percent of our lines are provided on our own facilities or using leased local loops or UNE platform. Approximately 4.6 percent of our lines are provided using UNE-P.

In part because we're limited in our ability to control loop rental costs, we've been positioning ourselves to deploy digital local phone service using our cable plant instead of leased local loops or other means involving the incumbent local exchange provider.

I mentioned during last quarter's call that we had been preparing the cable plant in order to allow us to begin provisioning 8 to 10,000 lines on our own facilities by the end of this year. We identified, tested and ordered the necessary equipment and began rolling out this new service delivery capability on schedule in early April. We currently have approximately 1500 lines in service using our cable plant, and although the initial turn-up rate has ramp up slowly we still expect to reach our target by the end of the year.

I mentioned last quarter that we are expecting a decision regarding Anchorage loop pricing from the RCA at anytime. As you are probably aware, we did receive a ruling recently which Dana will discuss as part of her regulatory update following my comments.

Internet access services. The Internet business also enjoyed a very strong quarter. Revenues for the second quarter totaled 6.5 million as compared to 4.8 million in the same quarter of the prior year, representing an increase of more than 35 percent. Revenues were up 1.6 percent on a sequential basis.

Quarterly Internet EBITDA reached almost 2.25 million. That compares to approximately 1.4 million in the year earlier quarter and 1.9 million in EBITDA in the preceding quarter.

We deployed another 5100 cable modems during the quarter. We now have approximately 56,800 units in service, over 16,000 more than we had a year ago. We also have approximately 880 DSL subscribers.

Our new free Lightspeed (ph) bundle continues to be particularly effective in attracting new customers and has created new opportunities to promote our high-speed products. Approximately 99 percent of our cable homes passed are able to subscribe to our cable modem service.

At quarter's end we were serving approximately 43,500 dial-up Internet access accounts, down from the 52,500 that we had a year ago and 48,900 at the end of the prior quarter. The decline in dial-up accounts is consistent with our expectations as we expect to continue to migrate these accounts over time to our cable modem products.

We're seeing a decline in the average rate per customer per month due to our aggressive marketing of entry-level modem service and the related effects of tiered pricing, and we expect this to continue for the near-term. Once our entry-level customers are exposed to the benefits of additional modem speed, we expect our average rate per customer to begin to trend back up.

Alaska United (ph). Our new undersea fiber Alaska United West (ph) has now been completed and it is now in-service. Over the last ten days the repair to the Alaska United e-system has been completed and the two systems had now been configured into a geographically diverse of SONET ring. We're now able to differentiate ourselves as having the only such physically diverse SONET ring in the Alaska market. Access to these facilities was a critical element in recent negotiations with one of our large carrier customers, and has facilitated the lease of additional capacity to another larger carrier customer.

Other items of interest. During the second quarter we used approximately 1.1 million of our remaining credit with MCI. The use of the credit is recorded as a reduction of bad debt expense. We used none of this credit in the prior year quarters, and we recorded a benefit of approximately 1.2 million in the first quarter of this year. At the end of the quarter we had remaining unused credit of approximately 5.6 million. We're continuing to record the remaining credit as we use it, and we currently expect to record a benefit of approximately 1 million per quarter until the credit is depleted.

I mentioned also last quarter that we had initiated the process of amending our senior credit facility to reduce the interest rate paid on borrowings under that facility. During the quarter we were able

to reduce the interest rate 100 basis points to LIBOR plus 225 basis points at a nominal cost.

Guidance and economic prospects. We're very pleased with the results for the first half of the year. The Alaska economy continues to be strong and our business is performing well. We exceeded our expectations again during the second quarter.

We forecast revenues in the 103 to \$105 million range and EBITDA in excess of 31 million, excluding any benefit from the MCI credit, which translates into 32.1 million EBITDA compared to the 34.9 million that we generated.

Again, we think it's premature to adjust our prior guidance for the year, and therefore continue to expect revenues in the 410 to \$420 million range with EBITDA including the MCI credit in the area of 134 to 139 million. We're projecting third quarter revenues in the range of 103 to 105 million and cash flow, including any MCI credits, in excess of 32 million.

Liquidity and capital expenditures. We're still in great shape with respect to liquidity. During the first quarter you will recall we issued 250 million in 7.25 percent notes due in 2014 and used proceeds to retire our existing 180 million and 9.75 percent notes and to prepay our senior credit facility. Accordingly, we will have essentially no scheduled principal payments on our senior facility through 2005. We still have our \$50 million revolver in place, which currently has approximately 9.47 million, including 4.47 million in letters of credit, drawn against it, leaving 40.53 million in available capacity.

We invested approximately 17.6 million in capital expenditures during the first quarter -- I guess this was the second quarter -- excluding amounts spent on the new undersea fiber. The investments were made in the following areas -- long distance, 4 million; cable and entertainment, 4 million; local services, 2.8 million; Internet, 2 million; improvements to our north slope fiber, about 365,000; purchases not yet allocated, about 670,000; administrative support, about 3.7 million. We invested an additional 21.3 million in our undersea fiber project, bringing the cumulative amount invested in the fiber at June 30th to approximately 48.1 million.

Our capital expenditures requirements beyond approximately 25 million per year in maintenance capital are largely success driven, and they're a function of the opportunities we developed in the marketplace. During last quarter's call I indicated that we expect our capital expenditures requirements for 2004 to total somewhere in the \$50 million range, depending on available opportunities and the amount of cash flow we generated during the year. That number excluded the additional 34.5 million required to complete undersea fiber project and any special projects that might materialize.

Our Board of Directors has recently reviewed our leverage situation and concluded that the Company is currently under-leveraged. The Board concluded that a target of approximately 435 million in net debt or leverage of approximately 3.2 times cash flow was desirable. These discussions led to the decision to begin returning cash to the shareholders in the form of a stock repurchase program and to revisit capital spending priorities. It now appears that our core capital expenditures will likely be increased another 15 million during 2004 to pursue opportunities in the marketplace.

To recap our cash sources and uses for the quarter on a simplified basis, we generated approximately 34.9 million in EBITDA; we drew down about 5 million of our revolver; out of that we spent about 38.9 million in capital expenditures and 6 million in interest expense, resulting in net use of about 5 million in cash before other items during the quarter.

Excluding our swap agreement which will soon expire, approximately 247 million of our 415 million in debt is fixed-rate debt. Our cash interest expense at current rates on our existing facilities is now running a little over 26 million a year. If you compare that to our last two quarter's annualized cash flow of approximately 140.2 million, you would find our cash interest coverage is approximately 5.39 times. Our leverage at quarter's end on net debt is just over 2.9 times cash flow. On a more normalized 135 million in cash flow, cash interest coverage is 5.17 times and our leverage on gross debt is just under 3.1 times.

I will now introduce Dana Tindall, our Senior Vice President of Legal, Regulatory and Governmental Affairs, and she will provide a regulatory update. After that we will address any questions that you may have.

Dana Tindall - General Communication - SVP, Legal, Regulatory & Governmental Affairs

Thank you John.

There have been two regulatory orders of importance that I would like to discuss today. The first one is the regulatory commission of Alaska's order regarding the Anchorage arbitration proceeding, and the second is the DC Circuit decision vacating portions of the FCC's unbundling rules.

With respect to the Anchorage arbitration order, the RCA released an order June 25th setting prices for access to unbundle network elements, resale and terms and conditions for the Anchorage local services market. Most notable in this order, the Commission set a new rate for the unbundled loop element of \$19.15. This is an increase of \$4.23 per loop per month over the current loop rate of \$14.92. In addition, the Commission established a new wholesale discount rate of 24.6 percent, which is a decrease from the existing 26.1 percent off retail.

In its order the Commission also directed the parties to recalculate unbundled element rates consistent with Commission modifications to the switching and transport element inputs. Because the switching and transport element share a common cost with the loop element, this calculation has the effect of adjusting the loop rate downward to yield a final loop rate of \$18.91 per loop per month. We estimate the net impact of the new rates overall to be approximately 3.5 million per year in increased costs to GCI.

GCI believes the Commission made a number of material errors in setting the new unbundled rates, terms and conditions. The most significant error occurred in establishing a cost of capital of 14.28 percent. GCI also believes the Commission erred in determining costs for the portion of the network known as feeder plant. GCI has filed a petition for reconsideration on these and other issues.

Turning to the cost of capital first, at 14.28 percent the Commission awarded a cost of capital to ACS that is 202 basis points higher than that requested by ACS. The Commission arrived at this number by inappropriately mixing ACS's present cost of debt, which is based on its existing highly-leveraged structure, with a much less risky capital structure predicated on a hypothetical firm. ACS claims its present cost of debt is 10.33 percent and its cost of equity is 25.05 percent. Both of these numbers are inflated by the risky nature of its high debt-to-equity ratio. ACS's present capital structure is composed of about 84 percent debt and 16 percent equity. It is common sense that a capital structure with lower leverage such as the 55 percent equity, 45 percent debt assumed by the RCA would significantly reduce both the cost of equity and the cost of debt. The RCA's methodology, however, did not decrease the cost of debt.

Further, the Commission made two errors in establishing the cost of equity. First, the Commission calculated a size premium by again mixing the actual market capitalization of ACS at 16.5 percent equity with the 45.55 capital structure of the hypothetically efficient firm, thus increasing the size premium to be added to the cost of equity.

Second, in utilizing the capital asset pricing model to calculate the cost of equity, the Commission made what we can only figure is a simple computational error, inappropriately increasing the cost of equity component by an additional 71 basis points.

Errors in calculating the cost of equity are particularly pernicious when applied to a capital structure based on 55 percent equity because the RCA allowed ACS, despite the fact that they pay no income taxes, to recover full book income taxes on the amount necessary to achieve the overstated cost of equity. This has a dramatic effect in increasing the required loop rate.

In sum, GCI believes the Commission erred when it mixed an actual debt percentage and size premium based on ACS existing capital structure with the capital structure of a less risky hypothetical carrier. ACS had proposed an efficient carrier cost of

debt of 8.6 percent. Had the Commission used ACS's proposed cost of debt with consistent efficient carrier input, the Commission would have arrived at a cost of capital of 12.01 percent. Even if the Commission had consistently used all embedded cost inputs with actual ACS cost of debt and ACS capital structure, the Commission would have arrived at a cost of capital of 12.75 percent. Both those numbers are substantially less than the 14.28 percent awarded by the Commission.

I guess we're ready to take questions at this point.

Turning to the feeder plant (ph), GCI believes the Commission also erred in establishing the cost for the portion of the model network known as feeder plant. The Commission error resulted from a modeling error in calculating the cost of trenching, combined with an assumption that none of the construction costs would be shared with other utilities. The Commission's assumption regarding joint trenching ignores testimony by both ACS and GCI, as well as existing state and municipal laws requiring simultaneous under-grounding of facilities with other utilities. The Commission's error in calculating costs of feeder plant results in a 13 percent increase over current loop rates.

GCI does not know what the results of the petition for reconsideration on these issues will be. If the RCA does not grant reconsideration, GCI will be free upon a final Commission order approving the interconnection contract to appeal these and other issues to the courts.

Regarding the DC Circuit decision, the news here is a bit better for GCI. As you know, the main impact of the court's June 15 decision was to vacate the rules requiring ILEC unbundling of the local switching network element for mass-market customers which is necessary for the UNE platform. The FCC has reportedly adopted a standstill order leaving all current arrangements in place for a six-month period, during which time it is expected to adopt new rules in response to the court's decision.

Although GCI can't predict the outcome of the FCC's proceedings or pending request to the Supreme Court to review the court's decision, we do not anticipate any immediate effect from the court's decision on our existing operations in Anchorage, Fairbanks and Juneau. This is because in Anchorage GCI does not use UNE-P and GCI uses UNE-P in Fairbanks and Juneau where it cannot access the loop due to ACS's network architecture. Further, as a result of the settlement between the two companies reached in May, GCI will continue to have access to UNE-P in Fairbanks and Juneau where it cannot directly access the loop. This settlement remains in force notwithstanding the court decision and the outcome of the FCC rulemaking through January 1, 2008. So we are safe on the UNE-P issue for now.

And I'm going to turn back to John.

John Lowber - General Communication - SVP & CFO

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS) Richard Klugman, Jefferies.

Richard Klugman - Jefferies - Analyst

I had a couple of questions, if I could. First of all, John, I noticed the interest expense was down, and I know you talked about the refinancings. Is this a good run rate for going forward, what you reported in the quarter?

John Lowber - General Communication - SVP & CFO

Yes, I think so. I think the cash interest is going to run, based on current rates which are up just a touch, somewhere around the 26 million range. That's the cash number, which is close to the book number.

Richard Klugman - Jefferies - Analyst

Secondly, the Dobson deal with wireless. Is it too early to talk about expectations there? Or what should we be thinking?

Unidentified Company Representative

In terms of financial expectations, market expectations? What do you (multiple speakers)

Richard Klugman - Jefferies - Analyst

Subscribers I meant.

Unidentified Company Representative

I think we will have to see how it goes. We think that there are a large number of our current customers who will be very interested in moving wireless into their existing bundle. We already serve about 12,000 wireless customers under our current resale relationship, and we will be able to offer them substantially better service with this arrangement. I think the new packages of service will probably materially increase that number over the next couple of years.

We've sort of got anywhere from 40 to 50 percent of the market for most of the products we sell, and I think over a period of years we'll certainly move in that direction on wireless, whether we would actually get to that number on wireless. Probably not, since

it's not completely our product. But we are expecting nontrivial market shares over a multiple year period.

Richard Klugman - Jefferies - Analyst

A couple more. DBS competition, you talked about that in the past as it related to basic cable sub declines. Now it's going back in the right direction, and I know seasonality had something to do with it. But where do you believe you currently stand in incrementally on DBS competition this quarter?

Unidentified Company Representative

I think our sense is that we're better vis-a-vis DBS than we were in the same quarter a year ago, which was prior to the time that they had launched the up-link of the Anchorage signals in their major marketing campaign. We saw a flurry of DBS activity in the third and fourth quarter last year. And as we noted in prior calls, we think they took probably 2000 customers from us. There's no question that Dish is still making some sales in the market, but the impact on us is very substantially muted from what it was in the third and fourth quarter last year. We're very alert to it and aggressive in our packaging and promotions, but certainly don't see any cause to expect material declines in cable market shares at this point.

Richard Klugman - Jefferies - Analyst

That's great. Also on the cable side, you mentioned the rebates and refunds from programmers. Can you quantify how much that was this quarter?

Unidentified Company Representative

It was a couple pieces. I think all-in it was around 700,000.

Richard Klugman - Jefferies - Analyst

Which was similar to the number I think you talked about last quarter on the USF side. Was there a USF component in this quarter on the LD?

Unidentified Company Representative

The USF issue showed up in the local area last time, and that was a onetime out-of-period type item that is not occurring this quarter. I think the run rate is coincidentally pretty close to that 700,000 in terms of recurring USF revenues. But it was just a normalized quarter on the front this time.

Richard Klugman - Jefferies - Analyst

Finally, if I could, Dana, I think what people are concerned about on the regulatory front is not -- obviously the 3.5 million is a chunk, but as it relates to the direction of regulatory rulings, could you see this as a sign of further future regulatory rulings?

For example, you mentioned -- and I know it's a long way off -- in 2008 you're all set with UNE-P in Fairbanks and Juneau. But over the next couple of years, based on what we've seen here should we interpret that it could be a more difficult regulatory environment for you going forward?

Dana Tindall - General Communication - SVP, Legal, Regulatory & Governmental Affairs

That's a good question. In this particular proceeding I think what happened is ACS told a very simple story; they basically asked the Commission to look at the outcome, which is the loop rate, and make a determination that it's not fair, and do whatever it takes to get to a higher loop rate. And GCI told a much more complicated story where we focused on costs and inputs, and expert testimony, and producing a model that then yielded a loop rate, whatever that was. And the Commission bought ACS's story.

Why they would do that, I think to be quite honest and I think ACS's whining and doomsday scenarios, combined with their attempts to terminate the Commission twice, have had an effect on the Commission. And the other factor at play here is many of the commissioners are new and seem to be a little overly concerned with protecting individual players rather than public interest.

In the end I think it will all get sorted out. GCI doesn't plan on waving the white flag. We're going to continue to press our case. We're not going to try to introduce legislation terminating the Commission; nor are we going to whine too much. But we will press our case. And if we don't get reconsideration at the Commission, we will go to court, and we will go to court again. And I think in the end the merits will prevail.

Richard Klugman - Jefferies - Analyst

What's kind of the next data point or the next thing to look out for in regulatory going forward?

Dana Tindall - General Communication - SVP, Legal, Regulatory & Governmental Affairs

We have a situation where Matanuska Telephone Association, a co-op, has gone into the video business, and as a cable company no longer has a rule exemption with respect to GCI. GCI has filed upon a bona fide request for negotiations and interconnection, and MTA has not comply. We're waiting to see whether or not the

Commission will compel MTA to negotiate. So that would be the next data point to look for.

Richard Klugman - Jefferies - Analyst

Just refresh my memory, because I can't remember how many lines they have since ACS tried to buy them a few years ago. How large are they?

Unidentified Company Representative

About 60,000.

Richard Klugman - Jefferies - Analyst

That's great. Thanks a lot.

Operator

Todd Rosenblum, Standard & Poor's.

Todd Rosenblum - Standard & Poor's - Analyst

Todd Rosenblum with S&P on the equities side. Quick question regarding the stock buyback. Is not available to occur in the third quarter; is it effective now?

John Lowber - General Communication - SVP & CFO

It will be subject to normal green light buying opportunities. So once we get this Q filed and information is what we consider widely disseminated, then we will be good to go. So yes, it will be this quarter (indiscernible) the stock price stays on sale like it is now, we will be in there as quick as we can.

Todd Rosenblum - Standard & Poor's - Analyst

If I heard you correctly it was for the third quarter and the fourth quarter, and then the beginning of 2005, by then you will decide to get approval or not from the appropriate preferred shareholders and lenders, is that correct?

Unidentified Company Representative

I think we will be pursuing approval either way. The Board's decision was to commence a regular \$5 million per quarter equity buyback. Our current credit agreements give us the flexibility to buy 10 million which covers the first two quarters. And it's our anticipation that we will seek either rolling permissions from the

equity holders or a blanket permission to allow us to go forward with that.

The decision is basically that the Company is generating enough free cash flow and some of it should be returned to the shareholders on a regular basis. We're going to do that with a stock buyback program, and we will obtain we need in the ordinary course of business, assuming the business stays healthy enough and our lenders play ball. But we don't see any reason why given the current capital structures the lenders would not be cooperative.

The structure or the buybacks also require the consent of the preferred shareholders, Toronto Dominion and MCI. We would obtain that in parallel to the bank consent for the first 10 million and would follow a similar strategy there. So in short, we expect these to be ongoing subject to the exigencies of the business as a whole. But we haven't pursued long-term blanket approval from the banks at this point.

Todd Rosenblum - Standard & Poor's - Analyst

Can you confirm what these shares outstanding were at the end of the second quarter?

John Lowber - General Communication - SVP & CFO

Give us just a second here.

Unidentified Company Representative

Do you have another question?

Todd Rosenblum - Standard & Poor's - Analyst

I do, related to the Dobson deal. That also is something that I know -- and it was just announced yesterday, but it's something that you expect to be rolling out in the third quarter? Or is it something that is a 2005 issue?

Unidentified Company Representative

We've said before the end of the year, so sometime in the late third to fourth quarter would be the launch. The principal issues at this point are staffing up on the customer service front and implementing the IT interfaces necessary to allow us to integrate the product provisioning.

Todd Rosenblum - Standard & Poor's - Analyst

So it's something that's likely we will see it hit the expense side in this year, but revenues starting in 2005?

Unidentified Company Representative

I would hope to see some revenues from it; not material beyond what we currently have this year, but certainly some customers and ramping up online before the end of this year. I think you'll see 3 to 5 million in CapEx probably in the third quarter related to IT systems for the turn up there, and then the operating expense pretty much starting probably in the fourth quarter.

John Lowber - General Communication - SVP & CFO

The share numbers, as of June 30th we had about 53,486,000 A Shares out and about difficulty) B out, for a total of about 57,352,000.

Todd Rosenblum - Standard & Poor's - Analyst

57,352 was the final?

John Lowber - General Communication - SVP & CFO

Yes, total (multiple speakers)

Todd Rosenblum - Standard & Poor's - Analyst

Of the combined. Okay. Thank you very much.

Operator

Anthony Klarman, Deutsche Bank.

Anthony Klarman - Deutsche Bank - Analyst

I have a couple of questions. First, getting back to the Dobson deal, is there any cash that will change hands in this transaction? It sounds like they're going to be leasing some spectrum from you. Will you be getting any cash consideration for that or is that sort of folded into the larger scheme of the deal? And since it looks like you're doing more of a resale approach, might you monetize some of the spectrum that you have in the market to raise cash to either pay down more debt or buy back more stock or something of that nature? And I have a couple of follow-ups.

Unidentified Company Representative

We appreciate your breaking them into bite size chunks. We're getting pretty old up here and the memories are pretty short.

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With respect to the spectrum lease, there is some non-cash consideration that GCI has received for the spectrum lease. We value that at something less than seven digits, so it's not financially material. But there was some non-cash consideration.

At this point I don't anticipate a monetization of the balance of the spectrum. Rather I think we will use that for our own data products, both fixed and mobile, to serve some of our larger corporate customer base. We've had plans to use some of it in smaller areas to supplement some of our other delivery systems, and we're still looking at projects there that have an attractive return as an alternate way to reach some of our customer base that we don't pass with the cable plant.

So we will continue to use that spectrum, probably not in GSM technology but probably more in some of the fixed wireless technology that we've already deployed in that band.

Anthony Klarman - Deutsche Bank - Analyst

I guess in terms of on the UNE side, in terms of the DLPS, you have already given some indications of what you have converted over. What type of scalability do you have now to convert people over? Will you be adding infrastructure to accelerate that against the backdrop of obviously the RCA's agreement to raise the UNE rates?

Unidentified Company Representative

The good news in the RCA decision was that it took half a year off the payback; swapped it from a three-year payback to a two and a half year payback on DLPS investments.

We expect to attain somewhere in the original target range of 8 to 12,000 DLPS lines by the end of this year. And we're actively investigating right now to figure out what the maximum deployment pace we could build to and sustain would be.

There are a lot of interoperable plant and customer issues associated with the deployment. We're going through a process of trying to identify and mitigate bottlenecks that occur at certain deployment levels. I think we will hit at least 24,000 in new deployments next year, so we would be a minimum of 24 plus this year by the end of next year. We're still trying to figure out whether we could substantially ramp that up.

Originally we had a thought that DLPS would build out through the entirety of our footprint over a five-year base. And I guess the question we're grappling with is could we shrink that to something like a three-year timeframe for full DLPS deployment and get access to the better return on a more rapid basis.

It will probably be well into this quarter before we answer all of the questions, and identify what really the most critical bottlenecks towards accelerated DLPS deployment are.

Anthony Klarman - Deutsche Bank - Analyst

Is the bottleneck there just the availability of technicians to go out and put the new box on the back of the house? Or is it the plants that need to be upgraded a bit? Or what's the real bottleneck to having a larger scale conversion?

Unidentified Company Representative

There probably are about 25 bottlenecks that kick in at various levels in the pace. You have to prepare the plant first, so you have got to go through and upgrade the plant to put in the batteries and change out of taps, and that sort of thing. That involves some downtime in the plant, so typically we've been restricting ourselves to trying to do those activities only during the non-busy hours for television viewers because there's some disruption to existing customers in the plant upgrade process. And there are a whole raft of issues associated with how fast you can upgrade plants. Then there are manufacture and production issues; how many boxes you can get; how fast you can get the boxes; how quickly you can put them through the quality control process. We bring the boxes in for a substantial period of time before we put them in the field. Then you get into deployment issues with techs screwing boxes on the sides of homes and those sorts of things. And you also end up with technical support and IS support deployment and workforce management issues.

The intensity of the various constraints kicks in at different levels. Some of them come back to visit you at higher levels once you resolve them at lower levels. All of them can be cured by money. However, we obviously don't want to destroy the investment return that's very attractive today on the DLPS, so we're looking at various ways to solve the various bottlenecks and ways to move faster. And in light of the RCA's generous decision, we have a very significant incentive to do so and we will try to respond to that with increased return for our shareholders.

Anthony Klarman - Deutsche Bank - Analyst

Finally, two financial questions first for John or Bruce. What is the size of the restrictive payments basket under the bond indenture that you'll be using the share buybacks? And finally, in terms of the wireless business, is that something that we will see broken out as a separate business line, kind of like we see for LD local and the other businesses? Or will that be folded in in sort of a bundled strategy?

John Lowber - General Communication - SVP & CFO

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In terms of the debt basket, I think we've got a generic basket based on the excess of cash flow over interest cumulative. It's north of \$175 million or something like that. So it's a large basket, so we've got plenty of room there.

With respect to the wireless reporting, I don't think we have sorted that out yet. I think that's going to be driven probably by materiality. Our desire, of course, has been to make sure the analysts understand the business. So we will find a way to provide you the information that you need to analyze it.

Anthony Klarman - Deutsche Bank - Analyst

Thank you.

Operator

Ethan Bellamy, Stifel Nicolaus.

Ethan Bellamy - Stifel Nicolaus - Analyst

Now that you have the fiber build behind you and the question of wireless has been answered, are there any other major capital projects that you're considering?

Unidentified Company Representative

I think the most significant capital projects at this point are the DLPS build out and how quickly we elect to or are able to proceed with that. We've talked about that as 100 million project over five years. We're probably 12 million into it at the end of this year. So that would be number one.

The other one that probably hits the material level is that we've come to the conclusion that there is a substantial under-building of our cable plant. We believe that the rapid growth in the Matanuska Valley north of Anchorage in the last several years and some rapid growth in the immediate area surrounding Fairbanks has created probably 30,000 plus homes that could cost-effectively be passed by the cable plant, particularly even just on a pure cable metric, let alone what happens when you put telephony in the model. And we really haven't built out to those at the pace we should.

So there's probably a capital item over the next two years or so to pass another 30,000 plus homes with the cable plant, and we think that's probably fairly attractive as well. That plant would be new build; it would be built to digital local phone standards. And we would look to roll out the DLPS on that simultaneously with the new build. We are still doing design and looking at.

But I think those are the two major opportunities for CapEx. And we will be looking at those. The rest are sort of core to the current business, and I think are in line with what we said in the past, that

largely the transmission business is pretty much built out. There will be success-based capital expenditures as we have the opportunity to provide increased bandwidth or new services to our school or help customers in the rural areas there will be some investment there. There might be some new satellite investment, but collectively I don't think they come up to the level that we would be looking at for DLPS or cable.

Ethan Bellamy - Stifel Nicolaus - Analyst

Thanks.

Operator

Tobias Weilow (ph), Blackrock.

Tobias Weilow - Blackrock - Analyst

I was hoping -- I just want to make sure I understand this. If you're saying you're 80 million under-levered, and I look at your stock; you have beaten how many quarters in a row now; you keep putting up the numbers; the free cash is there. Why not buy back 40 million in stock, which should probably equate to your free cash flow next year, I think, give or take? So what prohibits you from being more aggressive at these levels where you're approaching a 10 percent free cash flow yield? I would think that you would get a better return here from ramping up the CapEx. Could you talk to that?

Unidentified Company Representative

Are you talking about ramping up leverage to do an up-front buyback or just increasing the level of the buyback out of the current free cash flow?

Tobias Weilow - Blackrock - Analyst

I guess either alternative. And I wouldn't even mind ramping up leverage. But I'm looking at if it's 40 million, you are going to do that free cash flow for a year. It's not like you're ramping up debt for a very long period of time.

Unidentified Company Representative

I just heard all of our bond investors shudder when you said that --

Tobias Weilow - Blackrock - Analyst

I don't see -- I don't think we're shuddering. But I don't see how they could be too concerned given the performance in the business

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that you have shown the last couple of years and consistency of the business based on your market.

Unidentified Company Representative

I think the initial buyback year of 5 million a quarter or 20 million a year is an attempt to put our flag on the shore there and say we're the going to start returning capital to our shareholders. And it's an entry point, not a terminal point. And I would have to agree with you that if the current trends and pricing levels persist, that we ought to look at alternatives that would possibly involve re-leveraging the Company and shifting the balance between debt and equity.

When I look at the rather anemic multiples across the board in the cable industry today, one trend that does appear in those multiples is that the more highly leveraged companies have better EBITDA multiples as a whole. Some of that is -- in extreme situation of course one company is very highly levered and the stock is sort of speculative, but even if you go across the board, the lowest levered company has the least EBITDA multiple and the highest leverage Company has the highest EBITDA multiple; that would suggest the market would prefer to see more leverage on the equity.

And I think that we will see what kind of a response we get from this initial stock buyback. And we will look at alternative mechanisms that would potentially rebalance that or do other things to drive value for the shareholders. We share your frustration on the equity valuation side.

Tobias Weilow - Blackrock - Analyst

What would the CapEx -- you talked about increasing it 15 million this year. Maybe you can talk to where that would go. What would the CapEx look like for next year? I think in the past you have said 50 million is a base. What kind of number do you think we will see next year?

Unidentified Company Representative

I would say I would wade way out on point here and maybe get myself in trouble with people and say it certainly would be less than 80 million all-in. It really depends on what we decide that we want to do and what we are able to do in terms of the acceleration of DLPS and the cable investment. 50 million core CapEx is a very comfortable number to run the business and achieve an ordinary level of growth. The regulatory incentives to accelerate DLPS are substantial if we can solve the rollout problems to increase the speed. And we think that additional 30,000 homes passed would be an attractive thing to pursue. How quickly we would pursue that, we will have to pencil that out.

But at the outside I think 80 million would be kind of the top end of CapEx, so 50-50 would be probably be the bottom end for next year to give you a grounding on that. And we'll just have to refine that one as we go.

Tobias Weilow - Blackrock - Analyst

So the incremental would go to the 30 million incremental over maintenance, would go to DLPS? So essentially that could go from a five-year rollout to a three-year?

Unidentified Company Representative

I'd like to see DLPS -- I won't make any bones about it; if we can do it and maintain an acceptable quality of customer service, I'd like to see DLPS be a three-year rollout. I don't know if we can do that and maintain the service standards that our customers have come to expect. I would also like to see a three-year project to build out those 30,000 new homes. And the 50 million is not really maintenance; the 50 million is kind of ordinary ongoing, but it includes investment capital. It will grow the EBITDA. If you wanted to look at pure maintenance it's probably more like a \$25 million number. The difference between a 25 and the 50 is kind of the success-based growth capital that comes from deploying digital video recorders, and new cable modems, and HD transmission, and VOD equipment, and all of the other things we're doing to drive products and revenues.

I think we're in the enviable position today wherefore probably something only slightly over the range of 50 percent of the cash we generate we can continue to invest and grow the Company's strength and its EBITDA while simultaneously throwing off free cash flows that can be used to restructure or return capital to our shareholders. The \$50 million number is a number that in my mind involves us to continue growing EBITDA, and you can accelerate that growth if you do the DLPS and the cable plant expansions.

Tobias Weilow - Blackrock - Analyst

My model suggested that that makes sense as well. One last question. I'm just curious, with levels of the rates on debt so low right now -- you're talking about how your under-levered -- have you seen any interest from the private equity players maybe just saying hey, equity markets don't care about your stock; maybe we should just take you private?

Unidentified Company Representative

We get fishing expeditions like that all the time. I think the problem is the level of leverage that they want to put on the business to accomplish that kind of a transaction starts to threaten the underlying health of the business itself. And you have to look at that pretty carefully. We're in the enviable position -- I think we

could ramp our debt up probably significantly from where it is today and still have adequate free cash flows to return some to the shareholders and make investments that increase the Company's strength and grow the Company's cash flows. Whether it really makes any sense to lever the Company up to 9.5 times to try and buy in the equity, I don't know. I think that's shifts the whole risk equation, and then your debt holders start to become the constraining item there.

We certainly need to look at the whole range of opportunities given the fact that the equity is where it was five years ago, and that's not acceptable performance. And we're certainly going to evaluate whether or not restructuring the leverage ratios that we operate with would be an effective way to enhance total enterprise value. And if we conclude that it will, then I think that we would need to taken action in that regard.

I tend to agree with you that debt markets are fairly lowly priced today. And it may be that we're trying to price too low in the debt markets; it may be that we're trying to be too low risk and we're driving away some people who would be our ordinary lenders that a 100 or 200 basis point increase in our cost of senior debt associated with a couple of turns of leverage increase, and using that to restructure the balance sheet would make more sense.

You'll have to forgive us a little bit if we're still responding to the echoes of the last cries that we heard from our investors 18 months ago about the dangers of over-leverage and the fact that we were trading at \$2 because of the grave concern that we would not be able to refinance the Company. It takes us a few minutes for those echoes to drown out and for us to get back on the leverage bandwagon, but we're at least looking at it.

Tobias Weilow - Blackrock - Analyst

Thank you.

Operator

Ari Moses, Blaylock Partners.

Ari Moses - Blaylock Partners - Analyst

Just two questions; one more strategic question about kind of plans and strategies for moving down to the lower 48, especially in light of the repurchase you're announcing. I guess back several quarters ago you had said that you were going to be kind of considering crossroads of either kind of going to the lower 48 versus returning cash. Obviously at this point you're on the path of returning some cash, and I'm just curious what the status of the lower 48 is. The second is related to wireless, which actually I will a follow-up with afterwards.

Unidentified Company Representative

Thank you for sequencing those. We still have an interest in the lower 48. We like the business model. We think we have technology platforms and systems that would work down there, but not 3000 plus per sub. And I haven't seen anything to indicate that sub prices in the lower 48 are heading down rather than up. I think we have to get through the Adelphia reconstruction and the industry shakeout associated with that before we would know whether there any lower 48 opportunities.

I think that probably means that for the next two years we've got what we've got, and that's why we're making plans to start returning capital to the shareholders and running the business in Alaska. By doing that initial return through equity repurchases rather than through dividends we leave ourselves the flexibility to respond to opportunity to move outside the state if it shows up. But we think being a disciplined investor is important, and we don't see appropriate opportunities to deploy the capital outside the state right now. So we're not going to do that and we may in part be being punished for that.

Ari Moses - Blaylock Partners - Analyst

Fair enough. But with that said, that is still something you will be looking at when those valuations come in line or is that something that from a consideration perspective you're kind of saying right now we don't see it happening, and if it gets back to that, sure we will look, but right now we're not thinking about it?

Unidentified Company Representative

I've been at this game long enough to know that the cable valuations are a perpetual roller coaster, and it goes from dizzying heights to scary depths, and usually it plummets on the way in between. So, yes, the opportunity probably comes back at some point.

We're bulls on the cable business. We think the cable business is a dynamite exciting business. We think the broadband platform is the right platform to have in the long run. We think in the long run the cable industry as a whole probably owns half the telephone market, like we do here in Alaska. We think it's a great technology and a great platform, and we would love to expand the business outside.

You have this kind of incongruous situation right now where the public enterprise values of cable companies are down in the trash can, and the private values of cable properties are higher than they've been in the last four or five years. So go figure.

Ari Moses - Blaylock Partners - Analyst

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Shifting to the wireless side for a second, the relationship with Dobson, if I read correctly the service is going to be branded under the GCI brand. Is that right?

Unidentified Company Representative

Yes the service GCI sells will be part of the GCI brand and we will roll it into our packages and bundles.

Ari Moses - Blaylock Partners - Analyst

So the question is on the customer acquisition side, so you will be doing the marketing, choosing your subsidies, buying the devices handsets, etc., etc. on the customer acquisition side on your own? That is not something Dobson is going to be doing that you will be piggybacking on, or more importantly that they will be dictating?

Unidentified Company Representative

They won't be dictating. The arrangements does involve some access to some of their benefit for handsets and the like. And obviously we will be both reselling their packages and creating some new packages of our own. But we will be selling our own product to our own customers and we will be basically bearing our own expense and making our own margin on those customers.

Ari Moses - Blaylock Partners - Analyst

Lastly, you will be -- there's no exclusion from competing head-on with them, so in any market where they are you can compete with them head-on, GCI against I guess it is the Cellular One brand. There's no dictates as to how that has to work, is there?

Unidentified Company Representative

No there isn't, although the thrust of our wireless offering is not going to be to offer a head-on competition to the Dobson stand-alone product. We have said all along that our concern on wireless was that it was a vital part of the package of services that our customers wanted to buy, and that we felt very motivated to be able to develop cross-technology products; we want products that will integrate the wireless and the wire systems, not only in the same billing package, but with interoperable features; perhaps a situation where a wired and a wireless telephone ring at the same time if you choose to configure that option or where you can sell a bundle of minutes across wired and wireless for various types of services.

This agreement gives us the ability to develop those kind of products to integrated the two technologies to meet the evolving needs of our customer base. That was our principal objective. We've achieved that, we believe, in a way that we can do it

profitably. Don't expect to see GCI out there harping "buy your cell phone from GCI and save 10 percent over the price from Cell One." We're not looking to sell stand-alone wireless service; we're looking to sell wireless service in a bundle. And obviously both we and Dobson confronted the issue of the potential impact of mutual competition either through the resale agreement or should we have decided to build on ourselves on the our own. And the two parties came to the conclusion that we could both make more money by using a common system and offering it under the two brands.

Ari Moses - Blaylock Partners - Analyst

Thanks guys.

Operator

Rick Black, Blaylock Partners.

Rick Black - Blaylock Partners - Analyst

Very little to ask at this point, but I do have one question. Now that the build (ph) is complete, the fiber build, you have a strong position. And you did mentioned that you were able to get a successful negotiation with a major contractor based on the fiber build. I was wondering if you could give us any expectations on what you would see in terms of the market in terms of contract wins or just major contracts that may be up, and how that might start to start affecting your revenue runs in long distance and with other major carriers. Thanks.

Unidentified Company Representative

I think to see the effect of the fiber you are going to need to just track the ongoing progress of the data and private line side of the revenue equation. We believe the effect of the fiber will be to allow us to continue to grow the revenues from data and private line in spite of the relatively cutthroat pricing environment for the single thread unprotected fiber that has gotten into the market up here with the competition there, and that we will be able to sustain both some price premium and to continue to sell new services and maintain substantial market share in the face of the general downward trends or head winds, if you will, in the long distance business.

We certainly face those head winds like everybody else. I think that it should be a fairly noteworthy fact that we have continued to grow our long distance revenues and our long distance EBITDA consistently over the last four years in the face of those head winds while the rest of the industry is crashing on the rocks and breaking up into little pieces. We think the fiber is an essential investment to allow us to continue that trend. We don't intend to break out the specific fiber sales. In fact, our contracts with our customers prohibit us from disclosing information that's competitively

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sensitive to them. So all I can suggest is that you watch the total revenues line for data and private line.

Rick Black - Blaylock Partners - Analyst

Thanks.

Operator

Liam Burke, Ferris Baker Watts.

Liam Burke - Ferris Baker Watts - Analyst

Cable SG&A costs are up about 12 percent year-over-year. Is that tied to the cable telephony initiative? Or what's putting upward (technical difficulty) on those expenses?

John Lowber - General Communication - SVP & CFO

It's affected slightly by the DLPS, but more importantly I think the cable has been bearing a larger share of our marketing budget here for the first half of the year in response to the satellite guys. So I think all-in if you look at the Company SG&A, the total SG&A as a percentage of revenues is actually down as low as it's been I think in some time. But the cable business is getting a disproportionate share of that, at least for the time being.

Liam Burke - Ferris Baker Watts - Analyst

So part of that is seasonal in response to competitive issues, so is it possible that will come back down again?

John Lowber - General Communication - SVP & CFO

Yes, sure. We aim the marketing guns in different directions, and right now it's in the marketing -- it's in the cable arena. But we can swing them pretty quickly depending on market forces.

Liam Burke - Ferris Baker Watts - Analyst

Thanks John.

Operator

Richard Klugman, Jefferies.

Richard Klugman - Jefferies - Analyst

If I could, just a couple more follow-ups. Ron, I liked that remark about getting the echo out of your ears of 18 months ago. But it sounds like you guys have done a pretty good job of doing that from the way you're talking here about the leverage. Did the consideration of maybe a onetime dividend come into the equation, since I understand wanting the flexibility of doing share buybacks in case a project comes later? But wouldn't a onetime special dividend also do the same thing?

Ron Duncan - General Communication - President & CEO

Yes it does, but it doesn't really do much for the stock, does it? It doesn't enhance the Company's position; it doesn't reduce the droning about the need to do something to move the stock.

We may someday move to a dividend model. I think that if the stock got to a point where in our best judgment it was fairly valued then the Company would have to look very seriously at whether or not the continued use of free cash flows for equity buybacks was the best use of our resource or whether we should reconsider our reluctance to pay a dividend. I think in that determination we certainly have to evaluate tax policy at that time. If there's going to be a change in dividend tax policy that would probably weight against any ultimate move to dividend.

But our sense right now is with a paltry multiple that's in front of our stock that the equities are screaming by and we ought to take back as much of it as we can get and shrink the base of shares that might ultimately participate in a dividend. If that's in the direction the Company goes, then we'd rather do things that provide long-term recurring benefit rather than a one term pop. So we've not been terribly attracted by the idea of a special dividend. If we were going to re-lever and change the balance between debt and equity, I think we'd look more at doing a larger onetime buy or that sort of thing.

But those are very speculative at this point. We're trying to see what it takes to get appropriate valuation on the equity. We share your frustration after five years and winding up in the same place. Although we have both some exciting dives and some dramatic climbs in getting there, we're really at the same altitude we were five years ago, and that's frustrating. And we think it's not appropriate to the performance of the Company or the value in terms of the soon-to-be -- what I think will be a significantly increasing free cash flow stream here over the next several years. And we need to do something to get the market to recognize that.

Richard Klugman - Jefferies - Analyst

A couple more, if I could. The 30,000 homes that you want to build around Matanuska and Fairbanks, what's the cost associated with that?

Ron Duncan - General Communication - President & CEO

You do know that we charge by the question, don't you?

We don't have a firm capital budget yet for that, but we're convinced that we will be able to build subscribers for less than you'd pay in the public markets to buy subscribers. We think that it would be accretive to value for the firm as a whole. But we're really need to do some careful design work and figure out how to integrate some of the new plant structures and the cable telephony and stuff into it before we have a final number. So I'm not willing to speculate on that yet. It's measured in the tens of millions of dollars for sure.

Richard Klugman - Jefferies - Analyst

A couple more, if it doesn't cost me too much. The 1500 cable telephony lines that you have so far, how many of those were existing customers? I imagine most of them were. Are some of them new local customers that rather than go on UNE-L and then migrate just went straight to the DLPS?

Ron Duncan - General Communication - President & CEO

I'd have to check the answer to that. I suspect that the vast majority or all of them were conversions from UNE loop rather than raw turn up on the digital local phone service, only because the footprint of the digital local phone service in terms of nodes in which it is available is not that broad yet to facilitate.

Certainly if we get an order for a new phone customer in one of the geographic nodes where we have digital local phone service we would not turn them up first on loop and then migrate them to the DLPS. We would turn them up initially on the DLPS, and it would be a less painful, more efficient turn up for us, not to mention cheaper. But I just don't know that the footprint is big enough to have had any material element there.

We're not selling DLPS as a separate service; we're selling local phone service. But if you lived in one of those areas in South Anchorage today where we are offering the digital local phone service and you called up and you said I want another telephone line or I want to subscribe to GCI local service, our guy would come out with a little box and screw it on the side of your home and you would come up the right way the first time instead of having to go through the agony of going on copper first.

Richard Klugman - Jefferies - Analyst

John, I thought I heard you say you're increasing the CapEx guidance for 2004 by 15 million. A, did I hear that right; and B, what is the increment there?

John Lowber - General Communication - SVP & CFO

You did hear that right. I think probably the DLPS initiative is going to drive that.

Richard Klugman - Jefferies - Analyst

Finally -- and I think Rick Black was getting at this -- the fiber build (ph), you had talked before about once you had that done you might be announcing some onetime capacity sales. Where do stand there and do you anticipate (indiscernible) coming up?

John Lowber - General Communication - SVP & CFO

We did have some success already in that area, Rick. As Ron said, we're not going to go into much detail on it. And it doesn't materially affect the guidance. So it was kind anticipated and build into the numbers. So it's not a big incremental boost for us. But it's an indication that the asset has value and will generate returns.

Richard Klugman - Jefferies - Analyst

So these won't be treated as onetime sales like we've seen in the past?

John Lowber - General Communication - SVP & CFO

No, they will show up as recurring lease revenues.

Ron Duncan - General Communication - President & CEO

If we do get anything that involves an up-front cash payment we would disclose that separately because that would be material. And we will leave it to our overpaid accounting gnomes to determine whether or not we recognize the revenue on that in the full it (ph) or spread it out over the lease. The in-house accounts are all looking around saying they're not overpaid, but they're not who I was referring to.

Richard Klugman - Jefferies - Analyst

That's great. Also, by the way, as a final comment I like your remark about the 25 different bottlenecks deploying this -- I don't think we often get a good feel for how much elbow grease it takes to roll the stuff out sitting at our desks.

Ron Duncan - General Communication - President & CEO

Thank you. I appreciate the recognition that there's more to running this business than having quarterly conference calls.

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Operator

James Lee (ph), Decision Economics.

James Lee - Decision Economics - Analyst

Can you guys break down the LP revenue into the various categories that you usually report like wholesale, retail, private line phone so on and so forth?

John Lowber - General Communication - SVP & CFO

I'm not going to take the time to do that. We can do that off-line. I can have Bruce follow-up with you with that or something if that's important to you.

Bruce Broquet - General Communication - VP of Finance

We will have a talk after the call.

James Lee - Decision Economics - Analyst

One follow-up question. Can you guys talk about pricing of your triple play bundle a little bit, and maybe compare that with the ACS bundle, with the reselling of the satellite service?

Ron Duncan - General Communication - President & CEO

Our principal triple play bundle right now is what we call the ultimate package, which is your local and long distance telephony, your cable modem and 135 channels of the finest digital television that the world as to offer for \$79.99. The responsive package, if I read advertisements correctly, is call for pricing information -- it's not advertised with a price. One can only assume that that is because it costs substantially more than the \$79.99. If you'd like, I'd be happy to e-mail you the phone number that you can call for additional details.

James Lee - Decision Economics - Analyst

Okay, thank you.

Operator

Sir, I show no further questions at this time.

John Lowber - General Communication - SVP & CFO

I guess that will wrap it up then. Thank you all for your interest, and also for your participation. And we will do it again in another 90 days. Thanks again.

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